C4670-1

PurchasingWorld®

THE BUYER'S MAGAZINE JUNE 1989

Third party services

Transportation rates into '91 • Prices: Instant replay of '88

CONTENTS

June 1989 Vol. 33, No. 6

COVER STORY

22

Partnering: Value-added quality and service
Professional purchasers and Steel Service Center executives gather to discuss mutual concerns in the steel industry. This SSCI/PW Roundtable report is part I of a two-part series.

FEATURES

28 Take it or leave it
Part II of a two-part series on negotiations.

32 Third-party services—new route to transportation savings
Why would a company prefer to outsource all or some of its transportation requirements?

34 A tough job purchasing's gotta do
A recent *PW* survey shows that buying services is a lot harder than buying commodities.

42 '89 prices: instant replay of '88
So say PW readers in our most recent nationwide survey.

47 Does your office dealer measure up?
How can you tell if your office dealer will meet your needs? Some helpful hints on making a good decision.

50 Europe '92—Key role
A 30-year-dream-come-true will present U.S. industry with a major challenge and opportunity.

55 A system to build on
Columnist Garry Hersman steps out of the PC-world and analyzes a mini-computer package on purchase order and receiving.

57 PHRASE helps measure purchasing department productivity
Is your department functioning at peak potential? N.A.P.M.'s innovative PHRASE program helps take the guesswork out.

PurchasingWorld

29100 Aurora Road, Suite 200
Cleveland, OH 44139
Phone: 216-248-1125

Editorial Director
Paul V. Farrell, C.P.M.

Editor-in-Chief
Robert S. Reichard

Editorial Staff
Managing Editor
Ron Stevens
Senior Editor
Thomas F. Dillon, C.P.M.
Editorial Assistant
Denise M. Conner
Art Director
Mario M. Cavlovicak
Art Supervisor
Carolyn S. Henry
Art Assistants
Andrew M. Shive
Bridget T. O'Grodnick

Consulting Editors
Economics and Government
Dr. Roger Williams
Purchasing and the Law
Dr. John E. Murray, Jr.
Software in Purchasing
Garry Hersman
Negotiating
Louis DeRose
Office Products
Caroline Reich
Management
Robert L. Janson, C.P.M.
Dr. Kenneth H. Killen, C.P.M.

Publisher
James A. Lorincz

Sales & Marketing Coordinator
Vivien Gow
Adv. Sales Coordinator
Ellen Brennan-Omilanowski
Production Director
Georgenne Retych

Publisher's Notice: We assume no responsibility for the validity of claims in connection with items appearing in PurchasingWorld Magazine. Addresses are given to facilitate further inquiry.

© **HUEBCORE Communications, Inc.**
THOMAS J. CORCORAN, President
ROBERT H. GEIGES, JR., Executive Vice President
MANLEY P. LUDWIG, Executive Vice President
JAMES A. LORINCZ, Group Vice President

ISSN0095-1659 **USPS472-470**

PurchasingWorld (USPS 472-470) is published monthly by HUEBCORE Communications Inc., 6521 Davis Industrial Parkway, Solon, OH 44139. Printed in USA. Subscriptions: PurchasingWorld, P.O. Box 1073, Skokie, IL 60076-8073. Available without charge to qualified purchasing executives in US manufacturing companies. Available to others in the US for $46/year. Canada $56/year. Foreign subscriptions are available for $85 airmail or $60 surface mail. Sole agent for all subscriptions outside the USA and Canada is J.B. Trattsart, Ltd., 154a Greenford Road, Harrow, Middlesex HA 1SQT, England. Second class postage paid at Cleveland, OH, and additional mailing offices. Editorial and business offices: 6521 Davis Industrial Parkway, Solon, OH 44139. © Copyright 1989 by HUEBCORE Communications Inc.—All rights reserved ISSN 0095 1659

Postmaster: Send address changes to **PurchasingWorld**, P.O. Box 1073, Skokie, IL 60076-8073.

by Robert S. Reichard, editor-in-chief

Is the worst over?

All the current talk about accelerating inflationary pressures looks to be overdone. To be sure, tags are still on the rise. But now, for the first time in months, there are indications that the worst may be over—and that price increases may actually decelerate somewhat over the remainder of the year.

For one, there's a new NAPM buyer survey which finds that industrial prices for the year as a whole are expected to rise by an average of 3.8%. But because these quotes have already advanced 2.9%, this implies something just shy of another 1% increase for the rest of 1989—an increase most purchasing executives would be happy to live with.

Indeed, these same PMs indicate that a shift in the price climate may already be in the making. Thus the latest NAPM price index is clocked in at only 66.5 (50 is neutral). That's down nearly two percentage points from the previous month and the lowest such reading in two years.

Part of the price rise slowdown may be due to the persistent questioning of new price increases by buyers—with more and more PMs demanding dollars-and-cents justification for all new hikes. And this could be one reason why a new survey of *PurchasingWorld* readers also indicates that price increases will remain in the tolerable range this year (see accompanying story).

Nor are buyers the only optimistic people. The U.S. Commerce Department, in a new plant and equipment projection, puts 1989 price increases in this key area at only 2.8%. Not bad, considering that demand for capital goods is booming this year.

Another government agency also has some good news. The Federal Reserve Board's new regional survey finds economic growth has slowed down in many areas of the country—something which would seem to indicate an easing in inflationary pressures. Signs of slower growth are reported by the Fed banks in New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, San Francisco and Boston. The latter bank adds "price pressures are receding and many contacts note that the region's labor markets seem less tight."

Confirming this last point, the Labor Department's index of employments costs for private industry rose only 1.3% in the first quarter of 1989. That was actually less than the 1.5% rise in the first quarter of last year.

Further good news on the labor front comes from first quarter collective bargaining agreements. They call for average increases of only 3.2% over the first contract year and 3.1% over the lives of the agreements. When contracts were last negotiated for those same workers (in 1986 and 1987), the increases were 3.2% for the first year and 3.5% annually over the contracts' life. In short, no acceleration.

Productivity offsets to such wage hikes aren't all that bad either—especially if you focus on manufacturing. Latest first quarter 1989 figures find factory efficiency rising at a 3.5% annual rate—a figure that would seem to indicate no meaningful upward pressure on unit labor costs.

Foreign competition could be another price inhibitor. Thus import prices have begun to flatten out—probably in response to a somewhat stronger U.S. dollar. Other things being equal, this could make domestic vendors think twice before posting any further price increases.

A few words are also in order about the widely ballyhooed increases in the cost of living. Prices here have been rising rapidly. But it's almost entirely due to energy, food and services. Zero in on non-food commodities, and the rate of rise so far this year is about 4%—pretty much unchanged from year-earlier readings.

To sum up: Continuing price rises? Sure. But still no signs of the runaway inflation that some of our more nervous Nellies purport to see just around the corner.

Little rise for office products

Good news for buyers of office products: Prices won't be going up that much over the remainder of the year.

A new supplier survey by Quill Corp. (a major distributor) suggests that average costs will go up 2.5%. And even that could be an exaggeration since competitive pressures could force these distributors to absorb some of the hikes. As Quill puts it, "The entry of new players such as mass merchants and superstores has created a tremendous emphasis on price."

Keeping the latter in mind, here's what more than 350

Continued on next page...

suppliers are telling the Lincolnshire, IL distributor on what to expect in the way of cost increases over the next six months:

- **Data and word processing supplies:** Paper cost advances of 7-10% will be offset by a decline of 8% in disk quotes. Computer ribbons, labels, and cartridges should hold unchanged.
- **Reproducing supplies:** A 6% cost increase is seen because of rising paper costs. Facsimile paper will be up, too—but by a lesser extent.
- **Other paper items:** Envelope and stationery prices at the manufacturing level will jump 6%, but pads, typing paper, and self-stick tapes will move up by a smaller 3%.
- **Writing instruments:** Heavy competition will limit the increase here to just under 1.5%.
- **Furniture:** A 2.2% cost boost is seen—reflecting higher tabs on steel, linerboard and wood.
- **Desktop office machines:** A stable dollar will keep most prices relatively unchanged. One exception: Facsimile machines, where further declines are anticipated.
- **Mailing machines:** This category, which includes scales, paper trimmers and folding machines, will rise 5.2% by year end—in large part due to steel increases.

Average number of truckers used

(based on a 160 firm survey)

What do shippers want?

What shippers want from trucking firms these days—based on A.T. Kearney interviews with 160 major shippers: 1) Fewer but bigger, more reliable carriers. The average buyer will use only 60 carriers next year and less than 50 by 1995. That compares to 80 just two years ago; 2) More personalized attention. Shippers may want big carriers but they want them to behave like mom-and-pop outfits with plenty of customized care; 3) More than just simply freight hauling. Shippers are looking for stepped up distribution help—including more electronic services and data interchange. On the price front, Chicago-based A.T. Kearney finds that shippers would accept a 3-5% rate increase if tied to such service improvements.

Copper is jittery

The red metal remains nervous, with prices continuing to resist any decline much below the $1.20/lb level. One reason: concern about domestic labor contracts which will have to be renegotiated over the next few months. Relatively good brass mill ordering this spring has also helped

Continued on next page...

Zinc outlook improving

CURRENT SITUATION: Quotes have edged down from their recent 95¢/lb. peaks. But they still remain well above beginning-of-year levels and at pretty much double last year's 43¢/lb. low. Also suggesting a fair amount of firmness has been recent Peruvian labor strife, upcoming North American labor negotiations, and the fact that spot material isn't that easy to find. On the other hand, **buyers are playing their cards close to the vest**—making purchases only as needed and not taking producers up on fixed pricing options.

DEMAND: Domestic slab zinc chewup for the year as a whole could well drop a percentage point or so from last year's estimated 1.115 million metric tons. Reason: Projected slippages in auto and construction demands—sectors which account for about 75% of the metal's overall U.S. usage. And totals for the Free World as a whole will do little more than equal last year's level. Going further out—**the long-term prognosis is for about 1.5% annual gains here in the U.S.**

SUPPLY: Recent tightness should give way to better market balance. Not only is demand flattening out (in contrast to last year's gains), but new production is coming on stream. One source, for example, indicates that some 130,000 tons of new global potential has been added since 1987. And more is on the way—most notably expansion projects in Australia, Canada and the U.S. (the latter being the early 1990 opening of Alaska's Red Dog which will double U.S. zinc mine production). Secondary output is also on the rise.

PRICE OUTLOOK: Some further slippage (beyond that of the past few months) seems almost certain—given the improving supply-demand situation outlined above. The decline, however, should be modest in the months ahead as global stocks remain relatively low. **Best bet: Another 5-8¢/lb. drop by year end.** But even that would leave tags above last year's low.

Zinc prices

Firm dollar holds down import prices

Import price hikes continue to level off—thanks in large part to a relatively firm U.S. dollar (in March the dollar was actually 2% higher than a year ago on a trade-weighted basis).

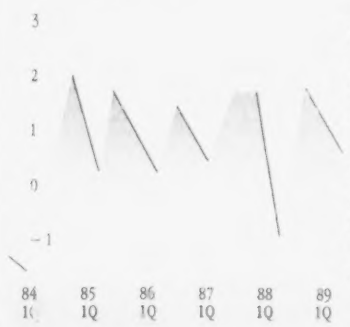
In any event, increases (excluding fuel) over the last quarter came to only 0.5%—or only 2% at annual rate. That's well below the 4.9% increase noted over the past 12 months and miles away from the 8.9% advance recorded over the previous 12-month period.

Here's a more detailed rundown on changes over the past three months:

- **Crude materials:** A 2.8% increase during the first quarter, following a 5.8% boost in the previous period, was highlighted by a slowdown in prices for metal ores and scrap. But crude rubber, cork, and wood all turned upward after late 1988 softness.
- **Fuels:** Prices rebounded a hefty 18.3%—more than offsetting decreases in the two previous periods. But despite the hike, averages for imported fuels are still one-third below their 1985 peaks.
- **Chemicals:** The modest uptrend of the past two years persists—with averages up 1.1% over the latest 3-month period. Organics, viewed separately, advanced 2.3%, but plastic resins remained virtually unchanged.
- **Intermediate manufactured products:** A 1.7% rise pretty much matches the 2.0% advance of the previous three months. Copper and aluminum rose 2.1% versus 6.4% in the previous period. But iron and steel and nonmetallic minerals both accelerated—rising 1.5% and 3.9%, respectively.
- **Machinery and transport equipment:** Averages remain basically unchanged compared to the 2.5% boost of the previous period. And tags actually dipped for four major groups—road vehicles, metalworking machinery, general industrial machinery and specialized machinery. But electrical equipment was up 1.1%.

Import prices:

Overall (ex fuel)



Product by product

Textiles 0.3
Steel bars, rods, shapes 6.1
Fasteners 10.0
Tools 6.1
Elec. motors & gener. 4.7
Textile mach. 0.1
Printing mach. 1.3
Metalworking mach. 2.1
Heating & cooling eqpt. +0.3
Pumps & compressors 2.9
Mechanical hdlg. eqpt. 1.2
Bearings 9.4
Office mach. 1.2
Elec. mach. 7.0
Autos 4.0
Elex components 12.8

Source: Bureau of Labor Statistics

buoy the market. Nevertheless, chances are prices will begin to weaken after mid-year if work stoppages can be avoided—primarily because consumption will slow down a bit due to leveling off in the key auto and construction sectors. Domestic chewup this year is expected to hit only 2.3 million tons—pretty much unchanged from last year's level.

Steel to avoid strikes

The new Bethlehem labor pact suggest that big strikes will be avoided this year. But the cost of the new agreement (20% over 50 months) could put some upward pressure on prices over the longer pull. Not so for the shorter term, as demand begins to tail off (second half shipments will run only in the 38-39 million-ton range—some 2-3 million tons under the first half). This falloff could well knock 2% off the average quote over the remainder of the year—bringing the composite transaction average down to $525/ton.

Office equipment gets smaller

The trend toward smallness is accelerating. New pocket computers for example are hitting the market—some weighing only one pound and at very attractive prices ($399 for the new Atari Portfolio model). The trend is similar in cellular phones, where a new Motorola unit—weighing only 12 ounces and just 8 inches with flipout mouthpiece extended—has just been made available. But the latter product doesn't come cheap—prices range from $2,495 to $2,995 per unit.

Pieces of Mbit DRAMS

Electronic components mix prices

A mixed picture here. The 1Mbit DRAM has dropped down to just under $16 on average—off 14% from a year ago. Nor is that the end of the line—with even steeper drops projected for yearend (to $11) and for all of next year (an average of near $8). On the other hand, tightness is noted in some static RAMs. As for overall demand, a new semiconductor industry forecast suggests a slowing in global chip sales—a 14% gain for this year, well under last year's 38% spurt.

Office space shrinks

The supply of office space is beginning to peak out. And this could spell higher

Continued on next page...

rents and purchase costs somewhere down the road. In any event, the national metro area vacancy rate has eased to 19.7%—off about two percentage points from the high of early 1987. Also indicative of change: completions of space over the latest quarter were off 30%. A similar trend may be in the making for factory vacancies. The latest 6% figure remains unchanged from three months earlier—though the 9% and higher rates continue for such cities as Cleveland, Miami, and New Orleans.

Air transportation needs a look

A closer look at negotiated airline deals may be in order. A new study by Topaz Enterprises finds 14.2% of the business tickets it audited early this year were negotiated at rates not offered to the general public. Keep in mind: That's up significantly from the 9.2% reading of last year. Most likely areas where deals can be struck: 1) Meetings for a group of employees traveling from different cities to the same location, and 2) Contract fares for travel on specific routes.

Small parcels go for less

The U.S. Postal Service is slashing its rates for international express mail. A temporary rate of $8.75 is in effect now (for packages up to one-half pound)—with the regular quote of $10.75 targeted to go into effect at midyear. This is under the best discounted rates of private carriers. In any envent, the new rate should be attractive to small business which usually cannot qualify for volume discounts.

Non-auto fleet vehicles

(% of fleets)

Fleets add minis

Minivans, compact trucks, and utility vehicles are now becoming an integral part of commercial fleets. A new Runzheimer survey of 202 transportation managers finds that 17% added minivans to their holdings for the first time last year. And another 6% were doing the same for compact pickups and utility vehicles. Some 50% or more now admit to having at least some or all these types in their fleets.

Chlor-alkalis

Off-list tags for soda ash are moving up $15/ton. Behind the advance: tight supplies, strong demand and relatively low stocks. But things should begin to improve as output is gradually stepped up.

Resin prices ease

CURRENT SITUATION: Markets have eased off from last year's hectic pace. True, tonnage gains are still being racked up. But for the most part, they're considerably smaller than those reported in 1988. More important for buyers, **better supply-demand balance has begun to impact on prices—with even a few modest declines popping up in key commodity resins.** Examples: Current prices for high- and low- density polyethylene (HDPE and LDPE) are both lagging late 1988 highs by about 7%. Similar easiness has appeared in polypropylene (PP) which is off by an even more impressive 12% and in polyvinyl chloride (PVC) where spotty discounts have lowered tags to near 42¢/lb.

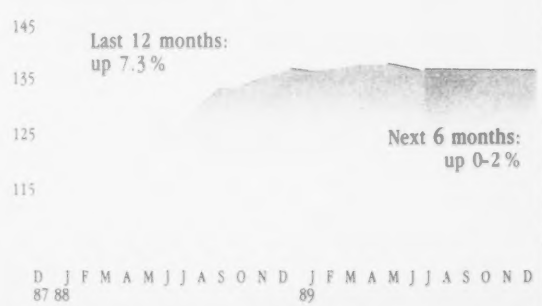
DEMAND: Part of the current respite is probably due to some inventory paring rather than any drop-off in consumption. As such, gains in commodity thermoplastic resins are expected to **pretty much equal last year's 3.25% advance.** HDPE looks to rise about 5%—well above last year's flat pattern. And fractional acceleration is seen for PP (to 6%), and PS (to 4%).

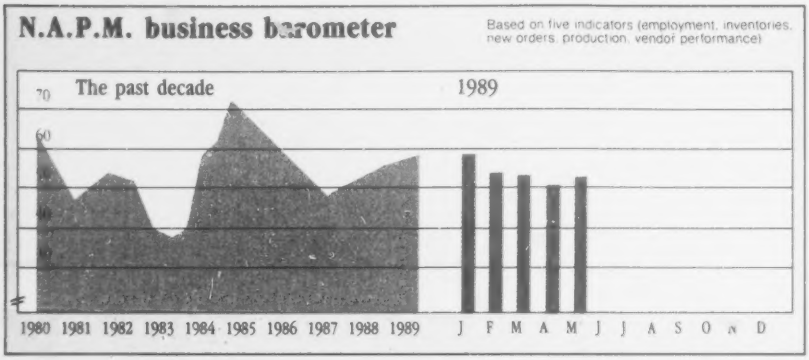
SUPPLY: Last year's tightness has all but disappeared. And the easiness should persist as a good chunk of new capacity comes onstream this year—12% in the case of PP and lesser (though still impressive) additions for PS (10%), HDPE (8%), and PVC (8%). Bigger-than-demand capacity gains are also indicated for LDPE (6%). As such, operating rates in all areas will decline with the exception of ABS. And even here a small 2% rise (to 82%) suggests clear sailing.

PRICE OUTLOOK: Don't count on any near-term downturn—despite the improving supply/demand outlook. Reason: The basic petrochemical building blocks that go into these resins will hold strong (a reflection of recent advances in crude oil). Long term, however, some easiness is likely—probably by early next year.

Plastic resin prices

Index: 1982 = 100




N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1989
70
60
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Business upturn still on its feet

Business may have slowed down a bit. But as yet there's precious little evidence to indicate that the now 7-year-old economic upturn is on its last legs.

For one, there's the still-positive N.A.P.M. Business Barometer. The latest 53 reading (50 is regarded as neutral) is below recent peaks. But it's actually better than it was in the previous month—the averages have remained pretty much unchanged since the beginning of the year.

Taking off on this, N.A.P.M. analysts figure that year-to-date readings are consistent with real GNP gain of 2.5%—not all that much under the 3.9% advance racked up last year. Also worth noting: This 2.5% estimate is the one that economists say is needed to keep inflation from getting out of hand.

Another encouraging sign is the continuing strength in plant and equipment. Take a look at capital appropriations (a lead indicator of future spending in this sector). Totals—as shown in the first chart on the right—took a giant lead forward over the latest 3-month period.

And it makes a lot of sense. With 1) operating rates not much under preferred levels, and 2) cash flow still on the rise—more and more firms are beginning to up their estimates to about a 6% real gain for 1989.

A continuing low stock/sales ratio in the factory sector is still another indication of underlying economic strength. If previous experience is any indicator, this measure starts to rise in the closing stages of a business upturn.

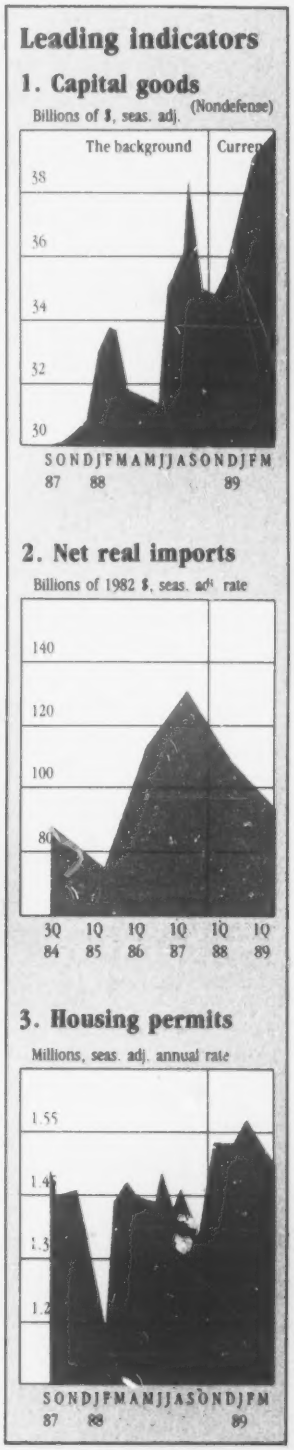
But so far this has not happened. The latest reading here is put at 1.58 (center chart, right). Back in 1982 during the last recession, the figure was up near 1.95.

What it means is that buyers—with a big assist from just-in-time inventory planning—are keeping a weather eye on stock levels. This, in turn, assures that any future new orders will quickly be translated into new production.

Interest rates, which seem to be stabilizing rather than continuing to rise also have to be regarded as a positive factor. It suggests that the Fed is now willing to wait a while before tightening up to inflationary pressures.

That's not to say that there aren't some weak spots. Thus exports, while still rising, are not racking up the big gains of 1988. Part of this is due to a firming dollar—with the fact that all the easy gains have already been made probab-

Continued on next page...



ly also playing a role.

This slowdown is confirmed by the fact that only 20-30% of queried N.A.P.M. members say exports are still on the rise. While certainly above the 5-10% reporting declines, the new figures are considerably below the peaks reported last year.

Another GNP growth inhibitor: Consumers may be getting more cautious. Consumer confidence, while not all that weak, is no longer rising. One reason could be higher interest rates which have made people think twice before committing for big-ticket items. Higher mortgage rates have impacted on housing, too.

All this suggests declines both in autos and housing markets this year. Auto sales could drop a half million units to near 10 million. And housing starts will do well to hit 1.45 million (vs. near 1.5 million in 1988).

These latter weaknesses have to be weighed against the strengths noted earlier. It suggests that gains will be harder to come by. Not surprising, PurchasingWorld's latest forecasts call for only a 1-2% annual rate of advance in industrial production over the rest of the year.

As plant managers see it

Plant managers are optimistic about near-term price and demand trends.

On the inflation front, a new Dun & Bradstreet survey of 1,500 factory executives finds that fewer now see cost increases over the next 12 months. Specifically, a D&B index, which reflects the percentage anticipating increases less the percentage expecting declines, now registers only 49—down significantly from the 55 reading of the previous two quarters.

This, in turn, has prompted some deceleration in another index that measures selling price expectations. The latest reading here is 56—down from the 58-59 levels of the past two quarters.

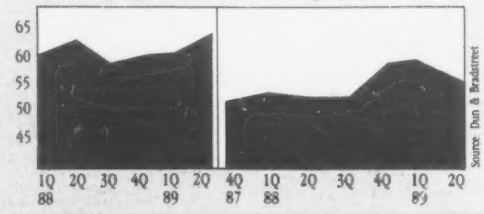
The above, in effect, would seem to debunk all the current talk about accelerating inflation. As Joseph W. Duncan, D&Bs corporate economist puts it, "The expected decline in costs, as well as continued competition from foreign firms, should slow increases in selling prices late this year."

A unit labor cost index (reflecting current experience rather than expectations) also points to a slowly improving price picture. Specifically, the 25 index reading here is two percentage points under the 27 level of the previous quarter and only fractionally above a year ago.

As for factory demand, the new survey suggests that fears of a production slowdown may be unfounded. Plant managers' expectations for the next 12 months reveal an index of 64—actually above the 60-61 reading of the previous two quarters.

Duncan, commenting on this, says "plant managers are confident that the manufacturing boom will continue into 1990." He adds that this key barometer of overall economic activity now stands at the highest point since the survey was started in late 1987.

A plant managers' view



CURRENT PRICES

Prices remain modest

Looks can sometimes be deceiving.

Industrial producer price averages took off last month—advancing a full percentage point. But a major portion of the increase was due to energy. Indeed, eliminate this category and the rise remains in the relatively modest range of the previous few months.

Also on the encouraging side. Some of the basic raw material tags—regarded as grass roots indicators of underlying inflation—actually turned softer. And capital equipment—which had been rising earlier this year—remained virtually unchanged at last report.

The impact on overall energy price averages can best be appreciated by looking at the magnitude of the increases here. Thus the overall fuels and energy category jumped by more than 6%. And if you zero in on the major oil product (gasoline), the increase comes to an eye-opening 19.5%.

The above is all due to the recent spurt in crude oil tags. But the latter has to be regarded as a one-shot affair. In fact, judging from the current leveling in crude and talk of some late 1989

Continued on pg. 15...

...continued from pg. 12

glut—these prices could be turning down after mid-year.

The raw material picture, as suggested above, is also reassuring as the big three nonferrous metals (copper, aluminum and zinc) all declined last month. So did nonferrous scrap, nonferrous ore and most nonferrous metal shapes. And on the steel side, prices remained virtually unchanged after removing seasonal influences.

This, in turn, helped push the overall durables manufacturing material index down by more than 1%—a welcome change from the steady tattoo of 1% boosts noted during each of the previous few months.

Then too, fears of acceleration in the equipment sector—in response to a continuing capital investment boom—seem to have been overdone. Averages actually held pretty steady—as decreases in autos, light motor trucks, office and store equipment and medical equipment offset increases in railroad equipment, mining machinery and metalforming machine tools.

Even the runups in industrial chemicals and synthetic fibers have to be taken with a couple of grains of salt. They reflect higher crude oil—and as this key cost item peaks out so will these tags.

True, some other areas—notably paper, building materials and packaging (both metal and glass) all turned up. But by and large, price analysts feel we've seen the worst of the runup—with smaller increases likely through summer and fall.

The price of security

Demand for security surveillance equipment shows no signs of letting up—with average annual real advances over the next five years put in excess of 6%. That's more than twice the rate expected for overall GNP over the same period of time.

But prices, despite this booming demand, should remain quite subdued. The average tab, for example, is projected to rise by about 1.8% a year—as increases are held down by competitive pressures and the increasing usage of sophisticated electronic devices.

The new forecast, worked up by The Freedonia Group of Cleveland, also suggests that electronic article surveillance (EAS) equipment will lead the pack. Shipments here are expected to increase nearly 17% a year in current dollar terms through 1993. Lesser, though still impressive, 6-7% annual dollar gains are seen for both electronic alarm systems and closed-circuit television equipment.

Virtually all end-use groups will share in the gain. The industrial/transportation market, for example, will be helped by economic expansion in the manufacturing sector. On the other hand, the highly mature financial services area will be limited by industry consolidation.

The commercial sector, meantime, will receive stimulus from the cultivation of EAS markets in hard goods retailing, and further penetration in soft goods retailing. And in the institutional sector, gains are expected (despite funding problems) as systems price/performance tradeoffs improve.

Another trend worth noting: Throughout the forecast period, the operative technological concept will be systems integration—both between distinct security functions and with multiparameter computer-based environmental control and building management systems.

PROCUREMENT STATUS REPORT

Things are looking up

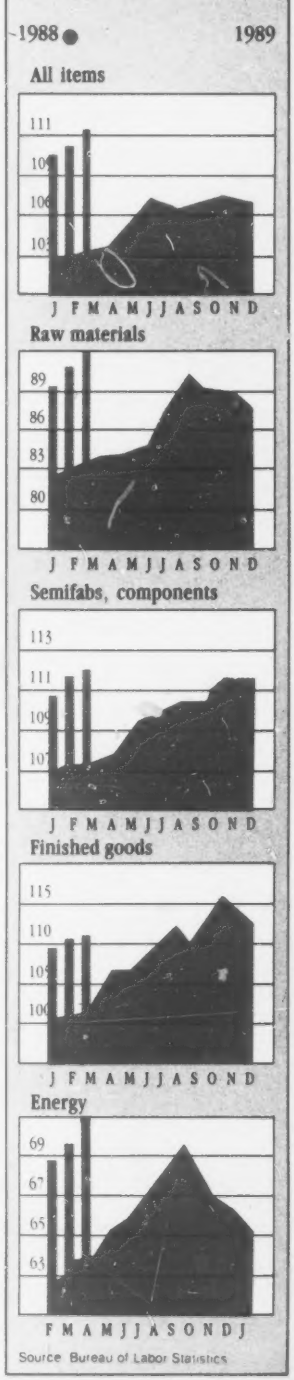
True, a buyer's market is still nowhere in sight—and tight situations are still reported in several areas. But now for the first time in years, there seems to be a light at the end of the tunnel.

Thus, steel, nonferrous metals and some semiconductors are a little easier to get. Ditto, a growing number of chemicals, most plastic resins and several paper lines.

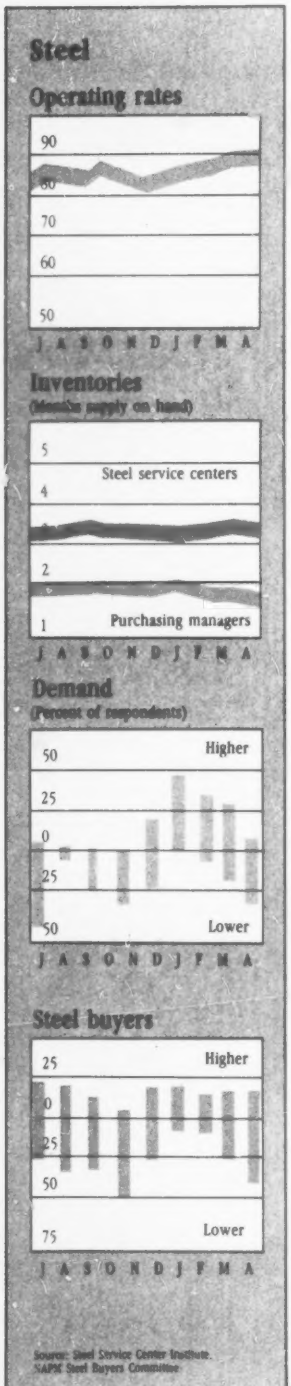
That's not to say, of course, that there aren't still some problems. Bearings,

Continued on next page...

Industrial prices
(Index: 1982 = 100)



Source: Bureau of Labor Statistics



for example, remain a headache (see accompanying story). And shortages persist in such lines as synthetic fibers, chloralkalis and even some types of finished equipment.

But the thing to remember is that the short supply list isn't nearly as long as it was at the beginning of the year. And it shows up in PW's exclusive leadtime index where, for the second month in a row, the number of purchasing managers reporting stretchouts were balanced by an equal number reporting narrowing leads.

NAPM, which monitors slower and faster deliveries, tells much the same story. Specifically, the 11% reporting speedups is the largest such percentage in years. And while this still falls short of the 15% noting slower deliveries, the gap has narrowed to a rather insignificant 4%.

As one purchasing executive sums it up: "The combination of slowly rising capacity and slowly decelerating production gains has to help free up currently tight markets. It won't happen overnight, but by year end or early 1990 I think overall operating rates will be averaging 1-2 percentage points under current levels—enough of a change to make a difference."

Import prices

(compared to domestic)

Steel buyers

ABOVE 53%
SAME 25%
SLIGHTLY BELOW 22%
SUBSTANTIALLY BELOW 0%

SERVICE CENTERS (carbon)

ABOVE 7%
SAME 88%
5-10% BELOW 5%
10-20% BELOW 0%
OVER 20% BELOW 0%

STEEL SCENE

Steel demand will soften

A slowdown in steel demand may not be that far off. At least that's what new surveys by the NAPM Steel Buyers Group and the Steel Service Center Institute (SSCI) seem to be signaling.

On the buyer front the number seeing declines in their receipts of steel over the next three months now comes to 37%—nearly double the 20% who anticipate increases. That's a gap of 17 percentage points—up substantially from the six percentage point gap of one month earlier.

The SSCI figures tell pretty much the same story. Indeed, the difference between those anticipating declines in new orders over the next three months (33%) and those betting on gains (9%) is now up to 24 percentage points.

Taking off on this, Andrew G. Sharkey, SSCI president, now says he expects his members' shipments to be 3-4% under the record 23.5 million ton level of 1988. He adds that while there is still good volume, there is simply less urgency—not everything must be delivered "yesterday".

The steel executive also has some comments on carbon flat-rolled products—noting that these items are likely to experience a short-term "further erosion" in sales to the automotive and appliance markets—as direct mill sales to these markets increase.

Sharkey, however, is more optimistic on market

share for other carbon and stainless product shapes—bars, plates, structurals and tubular products. Share of these latter items, he adds, should stabilize and resume a modest growth pattern.

Improving market balance, meantime, is beginning to cut back on fears of shortages. True, many buyers still express some concern. But the percentage is down from 65% a month ago to only around 50% currently. Indeed, about the only serious problem at this time (mentioned by 14% of the respondents) is coated sheet.

The better market outlook, combined with expectations of some demand weakness, is also prompting some second thoughts about inventories. On the SSCI front, for example, 52% feel their stock levels are too high—nowhere near the 5% who would still like to beef up their holdings.

And this despite the fact that inventories are not all that high in terms of near-term historical perspective. The latest 3.34 month SSCI level, for instance, compares to a 3.60 level early last fall.

But slower demand and inventory retrenchment could have some positive repercussions on prices. In any case, the SSCI survey shows 16% anticipating declines in their steel replacement costs over the next six months. That compares to

Continued on pg. 18...

...continued from pg. 16

11% last month and only 5% the month before that.

This feeling is, incidentally, backed up by new forecasts by Wharton Econometrics which suggest some modest price erosion over the next two quarters. Specifically, Wharton's average transaction price (currently put at near $539/ton) is projected to fall to $528 and $521 in the third and fourth quarters, respectively.

About the only disappointing news on the price front is in the import sphere where good overseas demand and a still relatively weak dollar continue to rule out bargains *vis a vis* domestic quotes. Thus the overwhelming number of service centers say there's little difference in quotes. And when it comes to buyers, more still say foreign goods are higher (76%) than lower (24%).

This month's breakdown

Index: 1982 = 100

	Latest level (Apr)	% change from: Month ago	Year ago
Bearings	125.7	0.2	13.2
Bolts, nuts, etc.	109.1	−1.1	2.7
Chemicals, inorganic	107.7	0.1	8.2
Chemicals, organic	120.8	1.1	16.2
Concrete products	110.8	0.2	1.0
Corrugated cartons	112.1	0.0	3.7
Cutting tools, small	109.6	0.1	2.4
Electric lamps (bulbs)	124.0	0.2	1.7
Electronic components	119.3	−0.2	2.6
Fans and blowers	117.4	0.1	4.4
Foundry and forge products	114.0	0.4	4.8
Fuel oil (residual)	47.3	8.7	16.8
Furniture, commercial	127.6	0.2	3.3
Gasoline	70.6	19.5	24.3
Glass, flat	110.0	0.0	0.8
Glass containers	116.3	2.1	3.7
Gypsum products	108.7	−1.4	−2.7
Hand tools	126.9	0.5	5.3
Hand tools, power driven	116.0	−0.1	4.0
Industrial furnaces	123.3	0.6	4.0
Integrating and measuring instruments	117.2	0.4	1.0
Internal combustion engines	113.2	0.4	2.2
Lubricating oil	107.4	0.8	4.1
Lumber millwork	127.5	0.9	5.2
Material handling equipment	110.5	0.3	3.6
Metal containers	110.2	0.5	0.1
Metal mill shapes (nonferrous)	140.6	−0.9	10.9
Metal tanks	110.2	1.0	6.4
Motors and generators	128.8	−0.2	7.0
Motor trucks	128.7	−0.2	4.0
Office and store equipment	108.6	−0.7	2.1
Paperboard	143.8	1.6	8.4
Paper boxes and shipping containers	128.9	0.1	5.8
Paper office supplies	122.2	0.8	8.5
Paint	118.4	0.6	6.9
Plastic resins	141.3	0.4	10.7
Precision measuring tools	125.3	−0.1	5.1
Pumps and compressors	114.2	0.5	5.8
Refractories	119.6	0.2	5.4
Rubber belts and belting	113.0	2.2	7.2
Scales and balances	106.2	0.0	0.3
Steel products	114.9	0.2	4.7
Switchgear	118.3	0.0	5.0
Textiles, synthetic fibers	104.0	2.7	8.0
Textiles, gray fabrics	114.1	0.2	0.2
Tires and tubes	97.1	−0.1	3.6
Transformers and power regulators	115.3	0.3	6.5
Welding equipment	122.3	0.5	5.3
Wire and cable	147.3	−0.3	19.3

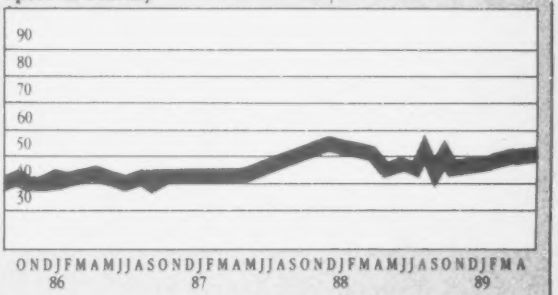
NAPM procurement trends

(seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, to the extent a reading is above 50, it represents an expansionary tendency. More particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward slower deliveries is similarly interpreted.

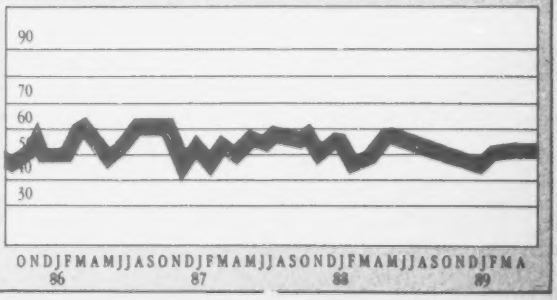
Inventories

Speed of delivery



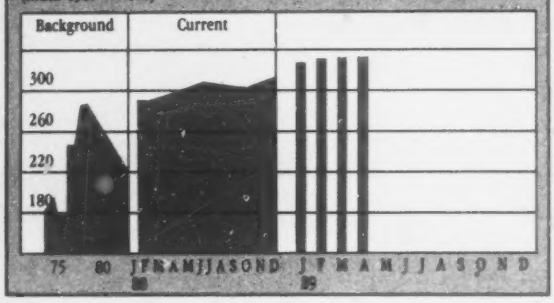
Prices

New orders



Raw material price barometer
(Index 1967 = 100)

Last month 335.4
Month before 334.6
Year ago 297.3



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	18.70	18.70	16.50
Steel, bars, Pitts., cwt.	18.70	18.70	16.50
Steel, bars, C.R., Pitts., cwt.	25.20	25.20	19.45
Steel, plates, Pitts., cwt.	23.25	23.25	19.75
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	19.75
Steel, sheets, C.R., Detroit, cwt.	29.65	29.65	28.15
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.990	.935	1.080
Antimony, N.Y., dealer, lb.	.95	.99	1.08
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85%, [sheet], lb.	2.02	2.13	1.66
Brass, yellow, [sheet], lb.	1.98	2.09	1.61
Cadmium, N.Y., dealer, lb.	7.10	7.10	7.90
Copper, electrolytic, wire bars, refd., lb.	1.39	1.50	1.02
Copper sheet, over 24 in., lb.	2.11	2.22	1.74
Lead, common, N.Y., lb.	.36	.35	.34
Magnesium, pig ingot, [99.8%], lb.	1.63	1.63	1.53
Mercury, 20 ft. lots, N.Y., fl.	295.00	295.00	345.00
Molybdenum, oxide, dealer, lb.	3.65	3.72	3.58
Nickel, cathode, dealer, lb.	6.50	6.98	7.95
Platinum, dealer, oz.	534.00	523.00	517.00
Silver, N.Y., oz.	5.64	5.80	6.37
Tin, N.Y., dealer, lb.	4.85	4.40	3.21
Zinc, Prime West, East St. Louis, lb.	.85	.90	.57
Zinc, die casting alloy, No. 3, lb.	.930	.980	.615
PAPER			
Uncoated book #3 offset, ton	1020.00	1020.00	920.00
Watermarked bond, ton	1095.00	1095.00	1070.00
Gummed sealing tape, carton	18.86	18.84	17.42
Grocery sacks, ton	495.00	460.00	455.00
Solid bleached paperboard, ton	780.00	730.00	685.00
Kraft linerboard, 42 lb., unbleached, ton	440.00	440.00	410.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.282	.283	.283
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.22	1.22
Cotton middling, 1", N.Y., lb.	.634	.600	.604
Printcloth, 48", 80x80, N.Y., spot, yd.	.500	.500	.510
Army duck, 37", 13 oz., yd.	1.40	1.50	1.51
Blended printcloth, 64", 78x54, yd.	.765	.750	.660
20s combed yarns	1.85	1.80	2.00
Wool 64s, Staple, lb.	3.75	3.75	4.50
CHEMICALS			
Acrylonitrile, tanks, lb.	.400	.400	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	123.00	123.00	100.00
Benzene, petroleum, tanks, Houston, gal.	1.49	1.50	1.03
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	26.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.785	.785	.685
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.52	.52	.53
Naphthalene, crude, tanks, lb.	.16	.16	.22
Phthalic anhydride, tanks, lb.	.41	.41	.34
Polyethylene resin, low density liner film grade (market place), lb.	.480	.490	.465
Polypropylene, homopolymer grade (market price), lb.	.450	.460	.515
Polystyrene, general purpose grade (market price), lb.	.585	.585	.580
Polyvinyl chloride, pipe grade (market price), lb.	.430	.435	.400
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.49	.49	.45
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	142.00	142.00	127.50
Sulfuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.95	.95	.87
Xylene tanks, gal.	1.45	1.45	.87
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	329.50	326.95	327.05
Lumber 2x2 pine, mbf, cl	316.50	321.47	327.15
Plywood, plyform, ¾", msf, cl	592.28	570.00	579.35
Plywood, ⅜", msf, cl	362.94	370.22	414.45
Cement, bulk, ton, tl	63.97	63.88	65.01
Sand, ton, cl	7.12	7.17	7.32
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.81	48.81	49.46
Crushed stone, 1½", ton, cl	6.36	6.60	N.A.
Concrete blocks, sand/gravel, 8"x8"x16", per hundred	89.10	87.17	N.A.
Reinforcing bars, whse base; per cwt	22.64	21.32	20.65
Asphalt paving AC-20	108.53	108.53-	129.30
Vitr. Clay Sewer Pipe, Prem Joint, 12", per ft, cl	7.81	7.54	7.14
Concrete sewer pipe, 24", prem. joint, per foot, cl	18.14	17.90	N.A.
FUELS			
Crude oil (W. Tex Int Cush), bbl.	20.05	20.65	17.50
Diesel (reseller rack, Chi), gal.	.5325	.5735	.5050
Fuel oil No. 2 (N.Y.), gal.	.5162	.5500	.5125
Fuel oil No. 2 (Gulf spot), gal.	.4720	.5070	.4650
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	21.75	22.25	16.50
Gasoline (reg lded NY), gal.	.700	.714	.541
Gasoline (reg unlded NY), gal.	.6875	.6985	.5825
Kerosene (reseller rack, Chi), gal.	.6130	.6590	.5540
Propane (Mt. Belvieu, Tex), gal.	.2050	.2175	.2463
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	114.00	114.00	108.00
Steel, No. 1 hvy., dlvd., Chi., ton	113.00	113.00	111.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.125	1.195	.890
Copper, No. 2, East, wholesale buy, dlvd., lb.	1.025	1.120	.795
Brass, red, East, wholesale buy, dlvd., lb.	1.085	1.155	.850
Brass, yellow, East, wholesale buy, dlvd., lb.	.620	.610	.425
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.655	.645	.620
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.735	.725	.705
Zinc, old, East, wholesale buy, dlvd., lb.	.38	.38	.24
Lead, clean solids, East, wholesale buy, dlvd., lb.	.210	.235	.210
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom	Nom.	20.00
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	5.00
Old newspapers, Chi., ton	5.00	Nom.	15.00
Old white ledger, Chi., ton	75.00	75.00	75.00

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]

'89 prices: instant replay of '88

The nation's industrial buyers remain cautiously optimistic about holding the line on price increases.

Sure, virtually every PM queried in a new nationwide PW survey expects to pay more for their purchase mix this year. But, by and large, the consensus is that these increases won't be any worse than they were in 1988.

Specifically, the average advance is put at nearly 5%—the same as last year. And while some respondents do see modest acceleration in the rate of rise, they are pretty much being offset by others who see smaller-than-1988 boosts.

But there could be differences in increases—depending upon the product or service being purchased. By far the biggest increase (near 7%), for example, is seen for the energy group, reflecting to a large extent the recent runup in crude oil.

Next come the 5.6% and 4.8% hikes anticipated for raw materials and components, respectively—followed by a 4% increase in freight and a 3.6% hike for machinery and equipment.

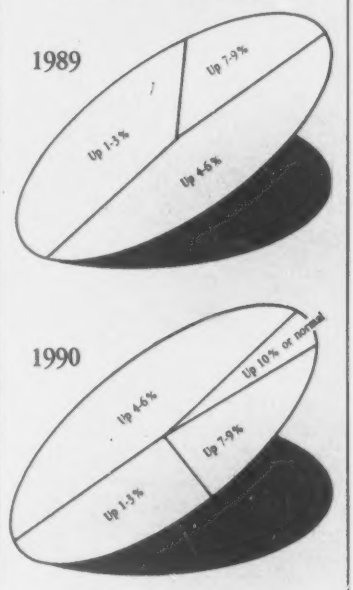
And the best showing, as far as buyers are concerned, will be in the office equipment and supply area where only a 1.5% advance is contemplated. Much of this, however, represents advances in paper-related products—in contrast to electronic office equipment where tags are actually expected to edge lower.

On an item-by-item basis, products listed as candidates for fairly substantial hikes this year include corrugated boxes, gasoline and fuel oil, nickel alloys, copper alloys, pipe, caustic soda and soda ash, paints, fiber glass, fats and oils, and bearings.

Reasons given for these increases are varied. In the case of paper, high exports are blamed. In fats and oils, it's the recent drought. And where goods are being imported, the recent softness of the dollar is fingered as being the chief culprit.

All these are in addition to the usual comments about strong demand and supply tightness. But these latter, basically market factors, are expected to play a somewhat smaller role from here on in as capacity is slowly increased and demand begins to taper off a bit.

Prices: A PM view



Source: PurchasingWorld

"By and large, the consensus is that these increases won't be any worse than they were in 1988."

These improving 'market' factors, incidentally, are credited for the few products where some price relief is already becoming apparent. In any case, increasing competition is expected to put downward pressure on some chemicals, computers, fax machines, selected semiconductors such as dynamic RAMs, plastic bags, and plastic resins. Metals, too, are mentioned as candidates for relief. More to the point: While metal averages for the year will be up, most of the boosts have already occurred—with even some softness possible in aluminum, copper, and steel after midyear.

The new survey also asks purchasing executives about what they think may happen in 1990. Their answers are fairly encouraging. In fact, more see price rise deceleration than acceleration. And the average increase next year is put at about 4% *vs* 5% this year.

The reasons for this, say PMs are in part due to the improving supply-demand balance noted above. Another factor could be that the energy price runup may be about over—as OPEC and non-OPEC nations step up production in response to recent high prices.

Last but not least, there seems to be increased determination on the part of buyers to resist big hikes. Some of the tactics being used: more material substitution, increased use of long-term contracts, price guarantees, better vendor-buyer relationship (including partnerships with suppliers), value analysis, and demands for full cost justifications. Even the use of future markets for hedging is mentioned by a few buyers.

It's all summed up by one East Coast PM who notes, "I think we've seen the worst of the recent runup. Market factors and more pressure on our part should hold near-term increases at current levels—with some deceleration expected by fall or winter at the latest." **PW**